

12M005

3 ECTS

## Empirical Macroeconomics

### Overview and Objectives

A distinctive feature of Walrasian economies is that all markets clear. That is, no delay takes place when trading is mutually beneficial. This immediate implication appears to be at odds with the empirical evidence in many markets: e.g., in the labor market unemployed workers coexist with vacant jobs. What are reasons for that?

In the first block of this course, we will look at some empirical evidence on employment and unemployment. We will discuss theoretical models that can explain the evidence, and use them to discuss labor market policies such as unemployment insurance.

The second block of the course deals with the empirical characterization of individual labor income dynamics. We will first discuss evidence on the evolution of incomes over the life cycle. Then, we will analyze how individual income risk varies systematically with the business cycle. When individuals have access to financial markets they can save in order to self-insure against future risk; also, families can provide insurance against individual income risk. These mechanisms will be discussed in the last part of this block, where we analyze of how individual income changes translate into consumption.

The material will be uploaded to the course Box folder.

### Course Outline

Block I: Labor market outcomes.

1. Perfectly competitive equilibrium model of the labor market.
2. Empirical evidence.
3. Search and matching models of a frictional labor market.
4. Policy Analysis. Unemployment Insurance.

Block II: Individual labor income dynamics.

1. Dynamics of individual labor incomes over the life cycle.
2. Dynamics of individual labor incomes over the business cycle.
3. Translation of individual labor incomes into consumption.

12M005

3 ECTS

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### Required Activities

There will be problem sets. Students are encouraged to discuss these and work together (the exact procedure will be discussed at the beginning of the course). Also, students are required to read the papers covered in class.

### Evaluation

Students are expected to successfully complete the problem sets and a final exam. The final exam will account for 85% of the final grade, and the problem sets for the remaining 15%. Furthermore, each paper covered in class will be assigned randomly to a student for a 5-minute summary.

### Professor's Information

You can reach me (Chris Busch) at [chris.busch@movebarcelona.eu](mailto:chris.busch@movebarcelona.eu). My office is B3-182 at the Economics Department of the UAB.

### Materials

#### Main Textbooks:

Pissarides, C. (2000) Equilibrium Unemployment Theory, MIT Press.

Ljungqvist, L., and Sargent, T.J. (2012). Recursive macroeconomic theory. MIT Pres.

#### Articles:

Blanchard, J.O., and J. Tirole (2008). "The joint design of unemployment insurance and employment protection: a first pass," Journal of the European Economic Association 6.1: 45-77.

Blundell, R., L. Pistaferri, and I. Preston (2008). "Consumption Inequality and Partial Insurance," American Economic Review, 98 (5), 1887-1921.

Blundell, R., L. Pistaferri, and I. Saporta-Eksten (2016). "Consumption Inequality and Family Labor Supply," American Economic Review, 106 (2), 387-435.

Card, D., R. Chetty, and A. Weber (2007). "Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market," Quarterly Journal of Economics, 122(4): 1511-1560.

Feldstein, M. and D. Altman (2007). "Unemployment insurance savings accounts," Tax Policy and the Economy, Volume 21 (pp. 35-64), MIT Press.

Guvenen, F., F. Karahan, S. Ozkan, and J. Song (2016). "What Do Data on Millions of U.S. Workers Reveal about Life-Cycle Earnings Dynamics?" Working Paper.

Guvenen, F., S. Ozkan, and J. Song (2013). "The Nature of Countercyclical Income Risk," Journal of Political Economy 122(3), 1-59.

12M005

## Empirical Macroeconomics

3 ECTS

Hopenhayn, H. and J.P. Nicolini (1997). "Optimal Unemployment Insurance," *Journal of Political Economy*, 105, 412-438.

Kaplan, G. and G. L. Violante (2010). "How Much Consumption Insurance Beyond Self-Insurance?" *American Economic Journal: Macroeconomics*, 2, 53-87.

Karahan, F. and S. Ozkan (2013). "On the persistence of shocks over the life cycle: Evidence, theory, and implications," *Review of Economic Dynamics*, 16(3), 452-476.

Katz, L.F. and B. Meyer (1990). "Unemployment insurance, recall expectations, and unemployment outcomes," *The Quarterly Journal of Economics*, 973-1002.

Krusell, P., T. Mukoyama, and A. Şahin (2010). "Labour-market matching with precautionary savings and aggregate fluctuations." *The Review of Economic Studies* 77.4: 1477-1507.

Low, H., C. Meghir, and L. Pistaferri (2010). "Wage risk and employment risk over the life cycle," *American Economic Review* 100(4), 1432-1467.

Meyer, B. (1990). "Unemployment insurance and unemployment spells," *Econometrica*, 58:4, 757-782

Michelacci, C. and H. Ruffo (2015). "Optimal Life Cycle Unemployment Insurance," *American Economic Review* 105(2), 816-59

Petrolongo, B. and C. Pissarides (2001). "Looking into the black box: a survey of the matching function," *Journal of Economic Literature* 39, 390-431

Pries, M. and R. Rogerson (2005). "Hiring Policies, Labor Market Institutions, and Labor Market Flows," *Journal of Political Economy* 113:4, 811-839

Rogerson, R., R. Shimer and R. Wright (2005). "Search Models of the Labor Market: A Survey," *Journal of Economic Literature*, 43, 959-988.

Storesletten, K., C. I. Telmer, and A. Yaron (2004). "Cyclical dynamics in idiosyncratic labor market risk," *The Journal of Political Economy* 112(3), 695-717.